[JOINT COMMITTEE PRINT]

# SUMMARY OF REVENUE PROVISIONS IN THE PRESIDENT'S FISCAL YEAR 1987 BUDGET PROPOSAL

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PREPARED BY THE STAFF

OF THE

JOINT COMMITTEE ON TAXATION

FEBRUARY 25, 1986


U.S. GOVERNMENT PRINTING OFFICE

57-687 O WASHINGTON : 1986 JCS-4-86



J862-4

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## INTRODUCTION

This pamphlet,[1] prepared by the staff of the Joint Committee on Taxation, provides a summary of the revenue provisions in the President's Fiscal Year 1987 Budget, submitted to the Congress on February 5, 1986.

The first part of the pamphlet is an overview of the President's budget proposal for fiscal year 1987 and as projected for fiscal years 1988–1991. The second part is a summary of the revenue proposals contained in the Fiscal Year 1987 Budget, including present law and a reference to prior action or current legislative status (if any) on the topic. (The budget does not include the tax reform proposal made by the President).[2] The third part of the pamphlet presents the Treasury Department's estimates of the revenue effects of the revenue proposals as they affect budget receipts. An Appendix provides detailed revenue estimates of the provisions of certain recent tax legislation.

The pamphlet generally does not describe the President's budget proposals relating to user fees or charges or similar revenue proposals (other than the harbor user fee and PBGC premiums) that are not treated as "budget receipts" in the budget document, but rather as "offsetting budget receipts" (e.g., Coast Guard boating fees, recreational facilities fees, etc.).[3] The pamphlet also does not include budget proposals relating to an increase in the Federal employee and D.C. employer contributions to Civil Service Retirement, Nuclear Regulatory Commission fees, the petroleum overcharge restitution fund, or certain other user fee proposals (e.g., Customs fees), which are included as budget receipt items in the President's budget.

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[1] This pamphlet may be cited as follows: Joint Committee on Taxation, *Summary of Revenue Provisions in the President's Fiscal Year 1987 Budget Proposal* (JCS-4-86), February 25, 1986.

[2] *The President's Tax Reform Proposals to the Congress for Fairness, Growth, and Simplicity* (May 1985). See statement in FY 1987 Budget, Part 4, p. 4-12.

[3] These offsetting budget receipt proposals are discussed principally in Part 5 of the Fiscal Year 1987 Budget.

## I. OVERVIEW OF THE PRESIDENT'S BUDGET PROPOSAL[3a]

### A. Fiscal Year 1987 Totals

For fiscal year 1987, the President's budget proposes total outlays of $994.0 billion, total receipts of $850.4 billion, and a deficit of $143.6 billion.

### B. Budget Outlays, Receipts, and Deficits

Table 1 shows budget totals for recent fiscal years and estimates of current and future budget totals under the President's 1987 budget proposal. These amounts also are shown as percentages of the gross national product (GNP), which is the market value of all goods and services produced by the nation's economy during the fiscal year.

**Table 1.—Budget Outlays, Receipts, and Deficits**

[Dollar amounts in billions]

| | Outlays [1] | | Receipts | | Deficit or surplus | |
|---|---|---|---|---|---|---|
| | Amount | Percent of GNP | Amount | Percent of GNP | Amount | Percent of GNP |
| 1970–79 [2] | ..... | 20.6 | ..... | 18.3 | ..... | 2.2 |
| 1980 | $590.9 | 22.2 | $517.1 | 19.4 | −$73.8 | 2.8 |
| 1981 | 678.2 | 22.7 | 599.3 | 20.1 | −78.9 | 2.6 |
| 1982 | 745.7 | 23.7 | 617.8 | 19.7 | −127.9 | 4.1 |
| 1983 | 808.3 | 24.3 | 600.6 | 18.1 | −207.8 | 6.3 |
| 1984 | 851.8 | 23.1 | 666.5 | 18.0 | −185.3 | 5.0 |
| 1985 | 946.3 | 24.0 | 734.1 | 18.6 | −212.3 | 5.4 |
| 1986 [3] | 979.9 | 23.4 | 777.1 | 18.5 | −202.8 | 4.8 |
| 1987 [3] | 994.0 | 21.9 | 850.4 | 18.7 | −143.6 | 3.2 |
| 1988 [3] | 1,026.8 | 20.9 | 933.2 | 19.0 | −93.6 | 1.9 |
| 1989 [3] | 1,063.6 | 20.2 | 996.1 | 18.9 | −67.5 | 1.3 |
| 1990 [3] | 1,093.8 | 19.5 | 1,058.1 | 18.8 | −35.8 | 0.6 |
| 1991 [3] | 1,122.7 | 18.9 | 1,124.0 | 18.9 | 1.3 | [4] |

[1] Includes outlays (and deficits) that are off-budget under current law. Separate off-budget outlay accounting began in 1973.
[2] Average during the 10-year period.
[3] Estimate.
[4] 0.05 percent or less.

#### *Budget outlays*

The President proposes to increase outlays (including off-budget items) in fiscal year 1987 by 1.4 percent over 1986, which would be a cut in real outlays of 2.4 percent after anticipated inflation. This

[3a] All the tables in Part I (Overview) of this pamphlet are derived from data presented in the *Budget of the United States Government, Fiscal Year 1987.*

would be the largest real decline in the budget outlays since fiscal year 1947, when real outlays dropped as a result of a 75-percent reduction in defense spending. Proposed real outlays vary between $829.4 and $830.0 billion from 1987 through 1991 (in 1982 dollars). In the same period, proposed current dollar budget outlays are estimated to increase by an annual average of 3.2 percent, with a low of 2.7 percent in 1991 and a high of 3.6 percent in 1989.

Under the budget proposal, the share of national product composed of Federal spending is estimated to decline significantly, from 24.0 percent of GNP in 1985, to 21.9 percent in 1987, and then down to 18.9 percent of GNP in 1991. During that period, Federal Government expenditures as a share of GNP would average 20 percent—falling as low as 18.9 percent in 1991—in contrast with an average share of GNP of 23.6 percent in the period 1981-1985.

***Budget receipts***

The President's budget proposal projects that budget receipts in fiscal year 1987 will rise by 9.4 percent over 1986. From 1987 to 1989, receipts are forecast to grow by 8.3 percent per year, slowing to 6.2 percent per year from 1989 to 1991.

As a percentage of GNP, total budget receipts are projected to increase from 18.5 percent in 1986 to 19.0 in 1988 and to decline to 18.9 percent in 1991. These ratios all exceed the 18.3 percent average of receipts as a percentage of GNP in the 1970s.

The 1987 budget describes legislative proposals and administrative actions which are estimated to increase total receipts by $19.1 billion during the 3-year period 1987-1989. Proposals for a new tax exclusion to encourage parents to save for their children's higher education expenses (for interest on deposits in special savings accounts) and a renewed recommendation of a tuition tax credit (for private school tuition payments through secondary school) would reduce revenues by $2.9 billion during the period.

Sources of major increases over the 3-year period also include $5.1 billion from extension of the 16-cents-per-package cigarette tax, $8.0 billion from proposals to charge excise taxes in the form of user fees for letters of determination and private letter rulings from the IRS, an IRS cost of collection charge instead of interest charges, increased IRS efficiency due to providing auditors with up-to-date automatic data processing equipment, revenue increasing effects from additional IRS personnel who would help improve compliance with tax laws, and $3.3 billion from an increase in the employee contribution rate to the Civil Service Retirement Trust Fund. Other proposed revenue additions would come from extending the expired excise tax revenue sources for the Superfund, i.e., Hazardous Substance Response Trust Fund, repeal of gasohol and bus exemptions from highway-user excise taxes dedicated to the Highway Trust Fund, increasing coal excise taxes for the Black Lung Disability Trust Fund to hold the cumulative deficit at the current level, and conforming the schedule for deposit of State and local government social security deposits to the schedule for the private sector. In addition, the President is planning to resubmit to Congress a request for an enterprise zone program (including several tax incentives) once tax reform legislation has been enacted.

(A summary of these revenue-related provisions included in the President's budget proposal are described in Part II, below.)

Estimates of receipts reflect not only the proposed revenue measures in the budget but also the effects of recent legislation, including the tax cuts enacted in the Economic Recovery Tax Act of 1981, the revenue gains provided by the Tax Equity and Fiscal Responsibility Act of 1982, the increase in Highway Trust Fund revenues arising from the Highway Revenue Act of 1982, the increased tax collections provided by the Social Security Amendments of 1983, the reduced revenues from repealing withholding on interest and dividends in the Interest and Dividend Tax Compliance Act of 1983, the tax increases enacted in the Railroad Retirement Revenue Act of 1983, and the revenues raised in the Deficit Reduction Act of 1984.

As shown in Table 2, the Administration estimates that the net effect of major tax laws enacted in 1981–1984 is to reduce tax receipts by $151 billion in 1987, and by $186 billion in 1989. Thus, a cumulative revenue loss of approximately $750 billion over the 1985–1989 period is attributable to the combined effect of tax changes enacted in 1981 through 1984.

**Table 2.—Net Effect of Major Tax Legislation Enacted in 1981–1984 on Fiscal Year Receipts, 1985–1989** [1]

[Fiscal years; billions of dollars]

| | 1985 | 1986 | 1987 | 1988 | 1989 | 1985–89 |
|---|---|---|---|---|---|---|
| Economic Recovery Tax Act of 1981 | −170.3 | −207.5 | −244.8 | −274.0 | −303.7 | −1,200.3 |
| Tax Equity and Fiscal Responsibility Act of 1982 | 39.2 | 49.2 | 59.2 | 61.6 | 61.7 | 270.9 |
| Highway Revenue Act of 1982 | 4.2 | 4.5 | 4.7 | 4.8 | 5.0 | 23.2 |
| Social Security Amendments of 1983 | 8.7 | 8.0 | 9.2 | 20.0 | 24.9 | 70.8 |
| Interest and Dividends Tax Compliance Act of 1983 | −2.4 | −2.1 | −1.7 | −1.8 | −2.0 | −10.0 |
| Railroad Retirement Act of 1983 | 0.7 | 1.1 | 1.1 | 1.1 | 1.1 | 5.1 |
| Deficit Reduction Act of 1984 | 9.3 | 16.0 | 21.8 | 24.9 | 27.2 | 99.2 |
| Net tax reduction | −110.5 | −130.8 | −150.6 | −163.3 | −185.8 | −741.0 |

[1] These estimates are based on the direct effect only of legislative changes at a given level of economic activity. Induced effects on the economy are taken into account in forecasting incomes, however, and in this way affect the receipts estimates by major source and in total.

The Appendix contains additional detail on the revenue effects of certain recently enacted tax legislation.

*Budget deficits*

The Administration estimates that under the President's budget proposal, the Federal deficit in fiscal year 1987 would be $143.6 billion. This would be $59.2 billion less than the 1986 deficit, representing a decline of 29 percent. As shown in Table 1, the budget proposes to decrease the deficit to $35.8 billion in 1990, and to achieve a surplus of $1.3 billion in 1991. During the period 1986–1991, budget deficits would decline, as a percentage of GNP, from 4.8 percent in 1986 to 3.2 percent in 1987 to a surplus in 1991 that is less than 0.1 percent of GNP. The deficits conform to the deficit ceilings set in the Balanced Budget and Emergency Deficit Control Act of 1985 (i.e., Gramm-Rudman-Hollings).

## C. Federal Debt

The President's budget projects that financing the deficit would necessitate an increase in Federal debt of more than $360 billion during fiscal years 1987 through 1989, inclusive: from $2.1 trillion at the end of fiscal 1986 to $2.7 trillion at the end of 1989 (see Table 3). According to these estimates, Federal debt subject to limit would increase from 46.3 to 50.9 percent of gross national product from the end of 1985 to the end of 1989. Most Federal borrowing is subject to a statutory limitation. Under present law, the statutory limit is $2.079 trillion, and this limit will need to be increased before the end of fiscal year 1986, if the budget estimate of the public debt at the end of fiscal year 1986 is accurate.

**Table 3.—End-of-Fiscal Year Federal Debt**

[Billions of dollars]

| | Actual 1985 | Projected | | | |
|---|---|---|---|---|---|
| | | 1986 | 1987 | 1988 | 1989 |
| Debt subject to limit | 1,823.8 | 2,108.5 | 2,317.4 | 2,506.5 | 2,681.9 |
| Debt not subject to limit | 3.7 | 3.5 | 3.2 | 2.5 | 2.4 |
| Gross Federal debt | 1,827.5 | 2,112.0 | 2,320.6 | 2,509.0 | 2,684.3 |
| Debt subject to limit as a percent of GNP | 46.3 | 50.3 | 51.1 | 51.1 | 50.9 |

## D. Composition of Outlays and Receipts

***Trends in budget outlays***

Under the President's budget proposal, total outlays would grow at an average annual rate of 2.8 percent over the 1986–1991 period. As shown in Table 4, national defense spending would grow 6.6 percent, a higher growth rate than the other categories of outlays shown in the table. Payments to individuals, generally defined as payments for which an individual currently provides no goods or services, would grow by 4.9 percent. Net interest payments would decline by 4.3 percent annually, and grants to State and local governments (excluding grants for payments to individuals) would decline, under the proposed budget, by 5.2 percent per year over the 1986–1991 period. Spending in the other budget categories (net of offsetting receipts) is scheduled to contract at an average annual rate of 18.0 percent over the period.

The growth in outlays for national defense significantly shifts the composition of Federal spending. Table 4 shows that the budget increases the portion of Federal outlays spent on national defense from 27.1 percent in 1986 to 32.6 percent in 1991, which is a larger fraction than the average 29.4 percent of the budget allocated to defense during the 1970s. Net interest payments also will claim a larger share of total spending than in the 1970s, rising to 14.9 percent in 1987 and falling to 10.3 percent in 1991, but both high relative to the 7.4-percent share during the 1970s.

## Table 4.—Composition of Federal Budget Outlays [1]

[Percent of total budget outlays]

| Fiscal year | National defense | Payments to individuals | All other grants [2] | Net interest | Other [3] |
|---|---|---|---|---|---|
| 1970–79 [4] | 29.4 | 43.4 | 10.2 | 7.4 | 9.6 |
| 1980 | 22.7 | 47.0 | 10.1 | 8.9 | 11.4 |
| 1981 | 23.2 | 47.7 | 8.5 | 10.1 | 10.5 |
| 1982 | 24.9 | 47.8 | 6.7 | 11.4 | 9.2 |
| 1983 | 26.0 | 48.9 | 6.3 | 11.1 | 7.7 |
| 1984 | 26.7 | 46.9 | 6.2 | 13.0 | 7.0 |
| 1985 | 26.7 | 45.0 | 6.1 | 13.7 | 8.5 |
| 1986 [5] | 27.1 | 45.5 | 5.9 | 14.6 | 6.8 |
| 1987 [5] | 28.4 | 46.2 | 5.1 | 14.9 | 5.5 |
| 1988 [5] | 29.1 | 47.3 | 4.7 | 14.1 | 4.7 |
| 1989 [5] | 30.3 | 48.3 | 4.4 | 12.8 | 4.3 |
| 1990 [5] | 31.5 | 49.6 | 4.2 | 11.5 | 3.2 |
| 1991 [5] | 32.6 | 50.4 | 4.0 | 10.3 | 2.6 |
| Average annual growth rate, 1986–91 [4] | 6.6 | 4.9 | −5.2 | −4.3 | −18.0 |

[1] Includes outlays that are off-budget under current law and proposed to be included on-budget.
[2] Grants to State and local governments excluding those for payments to individuals.
[3] Net of undistributed offsetting receipts.
[4] Average during the 10-year period.
[5] Estimate.

### *Trends in budget receipts*

Under the budget proposal, receipts are estimated to grow at an average annual rate of 9.2 percent over the 5-year period 1986–1991. Federal receipts consist primarily of corporate income, individual income, social insurance, excise, and estate and gift taxes, and customs duties. As shown in Table 5, the corporate income tax is projected to be the most rapidly growing revenue source (15.5 percent annually) in the 1986–1991 period, followed by the individual income tax (9.2 percent), and social insurance taxes (9.1 percent). Customs duties are expected to increase moderately at an annual rate of 4.4 percent, while excise and estate and gift taxes will change by less than 1 percent per year over the period. (For dollar amounts of budget receipt categories, see Table A–1 in the Appendix.)

Although corporate income tax receipts are projected to increase through 1991, the proportion of total budget receipts raised from the corporate income tax in 1991 is estimated to be 11.2 percent, a smaller percentage than the 15-percent corporate share in the last decade. In contrast, social insurance taxes are expected to increase to 36 percent of Federal revenues in 1991, a higher ratio than the 28.1 percent share in the prior decade.

## Table 5.—Composition of Federal Budget Receipts

[Percent of total budget receipts]

| Fiscal | Individual income | Corporate income | Social insurance | Excise | Estate and gift | Customs | Miscellaneous [3] |
|---|---|---|---|---|---|---|---|
| 1970–79 [1] | 45.3 | 15.0 | 28.1 | 6.3 | 1.8 | 1.4 | 2.0 |
| 1980 | 47.2 | 12.5 | 30.5 | 4.7 | 1.2 | 1.4 | 2.5 |
| 1981 | 47.7 | 10.2 | 30.5 | 6.8 | 1.1 | 1.4 | 2.3 |
| 1982 | 48.2 | 8.0 | 32.6 | 5.9 | 1.3 | 1.4 | 2.6 |
| 1983 | 48.1 | 6.2 | 34.8 | 5.9 | 1.0 | 1.4 | 2.6 |
| 1984 | 44.8 | 8.5 | 35.9 | 5.6 | .9 | 1.7 | 2.6 |
| 1985 | 45.6 | 8.4 | 36.1 | 4.9 | .9 | 1.6 | 2.5 |
| 1986 [2] | 45.5 | 9.1 | 36.1 | 4.5 | .8 | 1.6 | 2.4 |
| 1987 [2] | 45.4 | 10.2 | 35.6 | 4.1 | .7 | 1.5 | 2.5 |
| 1988 [2] | 45.6 | 10.8 | 35.9 | 3.6 | .6 | 1.5 | 2.0 |
| 1989 [2] | 45.7 | 11.2 | 36.0 | 3.3 | .5 | 1.4 | 1.9 |
| 1990 [2] | 45.6 | 11.3 | 36.3 | 3.1 | .5 | 1.4 | 1.8 |
| 1991 [2] | 45.9 | 11.2 | 36.3 | 3.0 | .5 | 1.4 | 1.8 |
| Annual growth rate, 1986–1991 | 7.8 | 12.1 | 7.8 | −0.6 | −0.9 | 4.4 | 0.7 |

[1] Average during the 10-year period.
[2] Estimate; reflects the budget's proposed tax changes, and scheduled tax expirations or tax rate reductions under present law.
[3] Principally deposits of Federal Reserve Bank earnings.

## E. Economic Assumptions for the Budget

The economic assumptions which underlie forecasts in the 1987 budget are shown in Table 6.

## Table 6.—President's Economic Assumptions

[Calendar years]

| Item | Actual | | Forecast | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 1970–79 [1] | 1985 [2] | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
| Real GNP (percent change) | 3.1 | 2.5 | 4.0 | 4.0 | 4.0 | 3.7 | 3.6 | 3.5 |
| CPI [3] (percent change) | 7.1 | 3.3 | 3.7 | 4.1 | 3.5 | 3.2 | 2.5 | 2.0 |
| Unemployment rate [4] (percent) | 6.1 | 6.9 | 6.7 | 6.5 | 6.2 | 6.0 | 5.7 | 5.5 |
| 91-day T-bill rate [5] (percent) | 6.3 | 7.5 | 7.3 | 6.5 | 5.6 | 4.8 | 4.3 | 4.0 |

[1] Average during 10-year period (geometric average in the case of GNP and CPI, and arithmetic average in other cases).
[2] Preliminary actual data.
[3] Consumer price index for urban wage earners and clerical workers (for all urban consumers in 1978–79). Data beginning 1983 incorporate a rental equivalence measure for homeowner's costs and therefore are not strictly comparable with earlier figures (fourth quarter over fourth quarter).
[4] Percent of total labor force, including armed forces, residing in the U.S. (fourth quarter over fourth quarter).
[5] Average rate on new issues within period, on a bank discount basis.

The President's budget assumes that real GNP (which is the gross national product measured in dollars of constant value) will grow at 4.0 percent per year through 1988. This rate is higher than the 2.5 percent growth recorded in 1985 and the 3.1-percent average growth during the preceding decade.

The budget assumes that inflation (as measured by the consumer price index, CPI) will rise from 3.3 percent in 1985, 4.1 percent in 1987, and then decline to 2.0 percent in 1991.

Employment is assumed to improve steadily as the economy expands. The unemployment rate is projected to decline from its 1985 level of 6.9 percent to 5.5 percent in 1991. The last year in which unemployment fell as low as 5.5 percent was 1974.

The budget assumes that interest rates, as measured by the rate on 3-month Treasury bills, will decline steadily from 7.5 percent in 1985 to 4.0 percent in 1991. The real interest rate (measured by subtracting the rate of consumer price inflation from the nominal interest rate) would decline from 4.2 in 1985 to 2.0 percent in 1991 under these assumptions.

Small differences in the estimated growth of real GNP have an impact on projected deficits over the forecast period. As shown in Table 7, the budget estimates that if GNP growth is 1 percentage point higher than forecast, due to a 1 percentage point increase in inflation (and interest rates), then the deficit, on a current law basis, would be $3.5 billion higher in 1989, and $6.8 billion higher in 1991. On the other hand, if GNP growth is 1 percentage point lower than forecast, due to a 1 percentage point decline in real economic growth, then the deficit would be $39.0 billion more in 1989, and $78.2 billion more in 1991.

**Table 7.—Sensitivity of the Deficit to Economic Assumptions[1]**

[Change in deficit or surplus, in billions of dollars, current law basis]

| Change in rate | Fiscal Years | | | | |
|---|---|---|---|---|---|
| | 1987 | 1988 | 1989 | 1990 | 1991 |
| One percentage point change in annual rate of inflation[2] | 1.4 | 2.7 | 3.5 | 2.2 | 6.8 |
| One percentage point change in annual real growth rate[2] | 7.2 | 22.0 | 39.0 | 57.3 | 78.2 |

[1] The effects of changes in economic assumptions in opposite directions are approximately symmetric.

[2] Beginning October 1986.

## F. Current Services Budget

The fiscal impact of the 1987 budget proposal can be analyzed by comparing projected budget outlays and receipts with the current services budget (CSB). The CSB measures the budget receipts and outlays which would occur if current spending and tax program were continued without change.

Under the President's budget proposal, the 1987 deficit would be $38 billion less than the $181.8 billion CSB deficit. As shown in Table 8, a major portion of the proposed deficit reduction is attributable to lower outlays due to programmatic reductions of $30.7 billion and net interest savings of $1.2 billion. In the absence of these budget proposals, the deficit would be $103.9 billion by 1991, $105.2 billion more than the proposed surplus of $1.3 billion. This deficit reduction in fiscal year 1991 is primarily attributable to spending cuts in programs ($88.6 billion) and reduced debt service ($12.8 billion).

**Table 8.—Reconciliation of Current Services Budget and President's Proposed Budget Deficits, Fiscal Years 1986–1991**

[Billions of dollars]

| | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|
| Current services deficit or surplus | −205.6 | −181.8 | −150.0 | −138.9 | −126.3 | −103.9 |
| Proposed budget deficit or surplus | −202.8 | −143.6 | −93.6 | −67.5 | −35.8 | 1.3 |
| Proposed deficit reduction | 2.8 | 38.2 | 56.4 | 71.4 | 90.5 | 105.2 |
| Programmatic reduction | 3.3 | 30.7 | 46.9 | 57.7 | 76.0 | 88.6 |
| Net interest reduction | [1] 1.2 | 1.2 | 3.6 | 6.8 | 9.5 | 12.8 |
| Increase in receipts | .7 | 6.3 | 5.9 | 6.9 | 5.0 | 3.9 |

[1] Net interest outlays increase in fiscal year 1986.

## II. SUMMARY OF REVENUE PROVISIONS

### A. Revenue Increase Items

#### 1. Cigarette Excise Tax Rates

*Present Law*

An excise tax is imposed on cigarettes manufactured in or imported into the United States (Code sec. 5701). The present tax rate on small cigarettes is $8 per thousand (i.e., 16 cents per pack of 20 cigarettes). The tax rate on large cigarettes generally is $16.80 per thousand; proportionately higher rates apply to large cigarettes that exceed 6.5 inches in length. Small cigarettes are cigarettes weighing no more than 3 pounds per thousand. Most taxable cigarettes are small cigarettes.

The present cigarette excise tax rates were scheduled to decrease by one-half on October 1, 1985 (e.g., to the pre-1983 rate of 8 cents per pack of 20 small cigarettes). The present law rates were temporarily extended by P.L. 99-107, P.L. 99-155, P.L. 99-181, P.L. 99-189, and P.L. 99-201, so that the present law rates are now scheduled to decrease by one-half (to the prior law rates) after March 14, 1986.

*President's Budget Proposal*

The President's budget proposal assumes Congressional extension of the present law cigarette excise tax rates (e.g., 16 cents per pack of 20 small cigarettes).[4]

*Congressional Action*

The conference report on the Consolidated Omnibus Budget Reconciliation Act of 1985 (H.R. 3128)[5] would permanently extend the present law cigarette tax rates.[6]

The conference report has not yet been agreed to by the Congress.

#### 2. Hazardous Substance Response Trust Fund ("Superfund") and Excise Taxes

*Prior Law*

***Taxes on crude oil and chemical feedstocks***

Under prior law, excise taxes were imposed on crude oil and certain chemicals, and revenues equivalent to these taxes were depos-

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[4] See, FY 1987 Budget, Part 4, p. 4-10, and budget revenue estimates (through FY 1989) on p. 4-13.

[5] H. Rep. No. 99-453, December 19, 1985, pp. 633-634.

[6] H.R. 3128, as agreed to by the conferees, also would impose an excise tax of 8 cents per pound on chewing tobacco and 24 cents per pound on snuff, effective on April 1, 1986. See, H. Rep. No. 99-453, p. 634.

ited into the Hazardous Substance Response Trust Fund ("Superfund"). These amounts are available for expenditures incurred in connection with releases or threatened releases of hazardous substances into the environment. These provisions were enacted in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), which established a comprehensive system of notification, emergency response, enforcement, and liability for hazardous spills and uncontrolled hazardous waste sites.

A crude oil tax of 0.79 cent per barrel was imposed (Code sec. 4611) on the receipt of crude oil at a U.S. refinery, the import of crude oil and petroleum products, and the use or export of domestically produced crude oil (if the tax had not already been paid).

An excise tax on chemical feedstocks was imposed on the sale or use of 42 specified organic and inorganic substances produced in or imported into the United States (sec. 4661). The rates varied from 22 cents per ton to $4.87 per ton.

In addition to the taxes described above, prior law authorized appropriations to the Superfund from general revenues of $44 million per year for fiscal years 1981 through 1985 (i.e., a total of $220 million). Certain amounts received from persons responsible for pollution, as well as penalties and punitive damages, are also appropriated to the Superfund.

The crude oil and chemical excise taxes terminated after September 30, 1985.

### *Tax on hazardous waste*

CERCLA also imposed an excise tax of $2.13 per dry weight ton, beginning on October 1, 1983 (sec. 4681), on the receipt of hazardous waste at a qualified facility, to finance the Post-Closure Liability Trust Fund. This tax also expired after September 30, 1985.

## *President's Budget Proposal*

Under the President's budget proposal, the prior law Superfund taxes on crude oil and chemical feedstocks would be re-enacted and a new tax on waste management added, providing combined Superfund revenues of $0.4 billion in fiscal year 1986 and $0.9 billion per year for the period 1987–1989.[7] The budget requests budget authority of $1.05 billion for fiscal year 1987.[8] The budget does not propose any further appropriations to the Superfund from general revenues.[8a]

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[7] While the budget proposal covers the period through 1989, it is understood that a 5-year reauthorization of the Superfund program (i.e., through 1990) is contemplated.

[8] The budget indicates that this budget request will be modified if necessary after Superfund authorization action by the Congress. See, FY 1987 Budget, Part 5, p. 5–40.

[8a] The Environmental Protection Agency (EPA) has more recently proposed a temporary extension of Superfund Financing, to be accomplished by authorizing up to $861.3 million to the Superfund for fiscal year 1986 appropriation as a repayable advance, to be repaid from the fund (with interest) from revenues from reenactment of the prior law excise taxes on crude oil and chemical feedstocks, effective April 1, 1986 until such time the advances (and interest) are repaid. See EPA letter to the Speaker of the House, February 18, 1986; also, proposed legislative language is reprinted in the BNA, *Daily Report for Executives*, February 20, 1986, J–1.

## *Congressional Action*

### *H.R. 3128*

The conference report on the Consolidated Omnibus Budget Reconciliation Act of 1985 (H.R. 3128)[9] would provide an estimated $9.5 billion in Superfund revenues over a 5-year period (generally, January 1, 1986–September 30, 1990, except as indicated). H.R. 3128 includes an increased excise tax on crude oil, revised excise tax rates on chemical feedstocks, an excise tax on imported chemical derivatives (effective on January 1, 1987), and a Superfund excise tax on manufacturers (effective April 1, 1986–March 31, 1991). No further appropriations would be made to the Superfund from general revenues.

A separate excise tax on gasoline and diesel and special motor fuels would be imposed to fund a leaking underground storage tank program. Also, an additional excise tax on petroleum would be imposed to finance an oil spill liability program.

H.R. 3128 also would repeal the Post-Closure Liability Trust Fund and the associated excise tax on hazardous waste, retroactively to October 1, 1983. Refunds of the tax (with interest) would be allowed.

The conference report on H.R. 3128 has not yet been agreed to by the Congress.

### *H.R. 2005*

The House and Senate have also passed different versions of H.R. 2005 relating to Superfund authorization and financing provisions.[10]

The House version of H.R. 2005 would provide a 5-year financing (fiscal years 1986–1990) of the Superfund program, with increases in the excise taxes on crude oil and chemical feedstocks, a new tax on imported chemical derivatives (effective on January 1, 1987), a new waste management tax, as well as some general revenue appropriations (for a total of $8.75 billion, excluding interest and recoveries to the Fund). In addition, there would be a separate tax on gasoline and diesel and special motor fuels to fund a leaking underground storage tank program, and a separate tax on petroleum to fund an oil spill liability trust fund.

The Senate version of H.R. 2005 would extend (through fiscal year 1990) the prior law tax rates on crude oil and chemical feedstocks, and impose (January 1, 1988–December 31, 1990) a new Superfund excise tax on manufacturers (for a 5-year total of $6.9 billion, excluding interest and recoveries to the Fund). No further general revenue appropriations to the Superfund would be authorized.

Both versions of H.R. 2005 would repeal the Post-Closure Liability Trust Fund and the associated excise tax on hazardous waste. The House bill would repeal the tax and trust fund retroactive on October 1, 1983, and would provide refunds (with interest) of the

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[9] H. Rep. No. 99-453, December 19, 1985, pp. 645–664.

[10] On September 26, 1985, the Senate passed H.R. 2005 (as amended) to delete the original House-passed social security technical amendments and to substitute the Senate Superfund amendments. On December 10, 1985, the House substituted its Superfund amendments (from H.R. 2817 as amended) and requested a conference on H.R. 2005. House and Senate conferees were appointed on H.R. 2005, on February 6 and 7, 1986, respectively.

tax paid. The Senate amendment would repeal the tax and trust fund as of October 1, 1985, and would transfer the unobligated balance in the trust fund to the Superfund; refunds would then be paid out of the Superfund, effective March 1, 1989, unless certain Congressional action had been taken by that time.

### 3. Black Lung Disability Trust Fund and Coal Excise Tax

#### *Present Law*

A manufacturers excise tax is imposed on domestically mined coal (other than lignite) that is sold or used by the producer. The rate of tax is $1 per ton for coal from underground mines and $0.50 per ton for coal from surface mines, but not to exceed four percent of the price for which the coal is sold.[11]

Amounts equal to the revenues collected from the coal excise tax are automatically appropriated to the Black Lung Disability Trust Fund.[12] The Trust Fund pays certain black lung disability benefits to coal miners (or their survivors) who have been totally disabled by black lung disease in cases where no coal mine operator is found responsible for the individual miner's disease. Present law includes an unlimited authorization for advances, repayable with interest, from general revenues to the Trust Fund.

The Black Lung Benefits Revenue Act of 1981 (P.L. 97-119) doubled the original rate of the tax, effective January 1, 1982, and made certain amendments relating to the Trust Fund.

#### *President's Budget Proposal*

The President's budget proposal would increase the rate of the coal excise tax sufficiently to freeze the cumulative deficit in the Black Lung Disability Trust Fund over the next five years.

#### *Congressional Action*

*H.R. 3128*

Under the conference report on the Consolidated Omnibus Budget Reconciliation Act of 1985 (H.R. 3128),[13] the excise tax on coal would be increased to the lesser of (1) $1.10 per ton for underground coal and $0.55 per ton for surface coal, or (2) 4.4 percent of the sales prices. This increase would be effective for a ten-year period (January 1, 1986–December 31, 1995). Also, the conference report would provide a one-time, five-year forgiveness of the current interest payments on the cumulative indebtedness of the Trust Fund.

The conference report on H.R. 3128 has not yet been agreed to by the Congress.

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[11] On the earlier of January 1, 1996, or any January 1 after 1981 on which there is no balance of repayable advances to the Trust Fund and no unpaid interest on such advances, the tax rates are scheduled to return to the pre-1982 rates, which were one-half the current rates (i.e., $0.50/ton for underground mines, and $0.25/ton for surface mines, limited to two percent of the price for which the coal was sold).

[12] Revenues from so-called "penalty" excise taxes (secs. 4951-53 on certain activities (e.g., self-dealing) of black lung benefit trusts also are automatically appropriated to the Trust Fund.

[13] H. Rept. No. 99-453, December 19, 1985, pp. 634-636.

### 4. Inland Waterways Trust Fund Fuel Tax

#### *Present Law*

As enacted in the Revenue Act of 1978, an excise tax on diesel and other liquid fuels is imposed on commercial users of 26 specified inland and intracoastal waterways. The tax currently is 10 cents per gallon (increased from 8 cents per gallon on October 1, 1985, under the rate schedule enacted in 1978).

Revenues from this tax go into the Inland Waterways Trust Fund. Amounts in this Trust Fund are available for making appropriations for construction and rehabilitation expenditures for navigation on the specified waterways.

#### *President's Budget Proposal*

The President's budget proposal would increase the waterways fuel excise tax by one cent per gallon per year, beginning on January 1, 1988, until reaching 20 cents per gallon on January 1, 1997 and thereafter. The proposal also would add the Tennessee-Tombigbee Waterway to the list of specified waterways the commercial use of which is subject to the waterways fuel tax.

#### *Congressional Action*

*S. 1567*

The Senate Committee on Finance has reported legislation (S. 1567) [14] which includes the waterways fuel tax changes proposed in the President's budget. S. 1567 also would provide that the Inland Waterways Trust Fund finance one-half of the construction costs of six specified inland waterways navigation lock and dam projects.

*H.R. 6*

The House passed a bill (H.R. 6) [15] on November 13, 1985, which would add the Tennessee-Tombigbee Waterway use as subject to the inland waterways fuel tax, but would not increase the fuel tax rate.

H.R. 6 specifies that not more than one-third of the cost of any inland waterway construction project (seven authorized in the bill) be paid from the Trust Fund nor more than one-sixth of certain relocation costs related to such construction projects.

### 5. Harbor (Port) Trust Fund and User Charge

#### *Present Law*

Historically, Federal expenditures for development and operations and maintenance of harbors and ports have been financed from general revenues. Present law does not impose Federal user fees or charges on the users or beneficiaries of these expenditures.

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[14] S. Rep. No. 99-228, January 8, 1986. The President's budget proposal is also included in S. 1567 as reported by the Senate Committee on Environment and Public Works (S. Rep. No. 99-126, August 1, 1985).

[15] See H. Rep. No. 99-251, Part III, reported by the Committee on Ways and Means on September 23, 1985.

### *President's Budget Proposal*

The President's budget proposal includes a new harbor user fee of 0.04 percent (4 cents per $100) of the value of commercial cargo loaded or unloaded at U.S. harbors (ports). Revenues from this new user fee would go into a new Harbor Maintenance Trust Fund, to finance up to 40 percent of Federal harbor operations and maintenance costs. The budget estimate indicates that this proposal would be effective in fiscal year 1987 (beginning October 1, 1986). (The budget document treats revenues from this proposed fee as "offsetting budget receipts.")

### *Congressional Action*

#### *H.R. 6*

H.R. 6,[16] as passed by the House on November 13, 1985, would impose a port use excise tax of 0.04 percent of the value of commercial cargo loaded or unloaded at U.S. ports (other than in Hawaii or U.S. possessions). Under the bill, this port use tax would take effect on January 1, 1986.

Revenues from the new port use tax under H.R. 6 would go into a new Port Infrastructure Development and Improvement Trust Fund ("Port Trust Fund"), along with general revenue appropriations to total (when combined with port use tax revenues) $1 billion per fiscal year. Trust Fund monies would be available for Federal expenditures for construction and operations and maintenance costs of U.S. ports and the Saint Lawrence Seaway, as well as for Treasury expenses in administering the port use tax.

#### *S. 1567*

S. 1567, as reported by the Senate Committee on Finance,[17] would impose a harbor (port) user charge of 0.04 percent of the value of commercial cargo loaded or unloaded at U.S. ports or on the use of a Great Lakes navigational improvement (other than the Saint Lawrence Seaway) by a commercial vessel. There would be a separate user charge of one-half cent per net registered ton for commercial vessels using a U.S. port or Great Lakes navigational improvement for purposes such as repairing, fueling or convenience.

The port use charge under S. 1567 would be effective on April 1, 1986, and generally would not apply to ports in Hawaii or U.S. possessions (except for cargo shipped to or from a foreign country). Also, the port use charge would not apply at U.S. ports not receiving any Federal funds since 1977 or a port deauthorized by Federal law prior to 1985. The port use charge would apply to commercial passenger vessels, other than the ferrying of passengers between points in the U.S. or between points in the U.S. and Canada or Mexico.

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[16] See H. Rep. 99-251, Part III, reported by the Committee on Ways and Means on September 23, 1985.

[17] S. Rep. No. 99-228, January 8, 1986. See also S. 1567, as reported by the Senate Committee on Environment and Public Works (S. Rep. No. 99-126, August 1, 1985), which includes a similar fee of 0.04 percent.

S. 1567 would establish a new Harbor Maintenance Trust Fund to receive amounts from the port user charges plus revenues (U.S. tolls) from the Saint Lawrence Seaway Development Corporation. Trust Fund monies would be available for (1) up to 40 percent of operations and maintenance costs for commercial harbors and channels and Great Lakes navigational improvements, (2) 100 percent of operations and maintenance costs of the Saint Lawrence Seaway (U.S. portion), and (3) rebates of Seaway tolls paid by commercial vessels for use of the U.S. portion of the Seaway (as provided by the bill).

### 6. Gasohol and Bus Excise Tax Exemptions

#### *Present Law*

Revenues from excise taxes levied on motor fuels, tires, and trucks and trailers, and a use tax on heavy highway vehicles are deposited in the Highway Trust Fund, and the proceeds are used to finance expenditures authorized from the Highway Trust Fund. These Highway Trust Fund excise taxes are scheduled to expire after September 30, 1988. Exemptions from all or part of some of these excise taxes have been provided for fuels containing alcohol and for private and public bus operators.

*Alcohol fuels.*—An exemption of 6 cents per gallon is provided for gasohol blends (i.e., 10 percent pure alcohol) of diesel, gasoline and special motor fuels. (The current tax rate is 15 cents per gallon for highway diesel fuel and 9 cents per gallon for gasoline and special motor fuels.) A 9-cents-per-gallon exemption is provided for neat methanol and ethanol fuels which contain at least 85 percent alcohol produced from a substance other than petroleum or natural gas. A 4½-cents-per-gallon exemption is available for such alcohol blends produced from natural gas. These alcohol fuels exemptions are scheduled to expire after December 31, 1992.

*Buses.*—Private and public bus operators are exempt from the excise tax on tires.[18] Intercity common carrier buses, school buses and qualified local buses are exempt from the 9-cents-per-gallon taxes on gasoline and special motor fuels. School buses and qualified local buses are also exempt from the 15-cents-per-gallon diesel fuel tax. In addition, private intercity buses receive a 3-cents-per-gallon refund (or credit) of the 15-cents-per-gallon highway diesel fuel tax. Nonqualified local buses (determined by passenger capacity and nature of routing),[19] however, receive no exemption.

#### *President's Budget Proposal*

Under the President's budget proposal, the excise tax exemptions for gasohol and other alcohol fuel blends would be repealed. In addition, the exemptions for private and public bus operators from the motor fuels and tire excise taxes would be repealed. These changes would take effect on October 1, 1986.

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[18] The excise tax on tires currently applies to highway tires (other than bus tires) weighing more than 40 pounds, with a graduated tax up to a maximum of $10.50 plus 50 cents per pound (in excess of 90 pounds) for tires weighing more than 90 pounds (sec. 4071).

[19] No exemption is available for buses engaged in transportation that is not scheduled and not along regular routes unless the seating capacity is at least 20 adults (not including the driver).

Repeal of these exemptions is estimated (in the budget) to increase Highway Trust Fund receipts by $600 million in fiscal year 1987 and $700 million each in fiscal years 1988 and 1989.

### *Congressional Action*

In the Tax Reform Act of 1985 (H.R. 3838),[20] as passed by the House on December 17, 1985, alcohol blend fuels (neat methanol and ethanol) now receiving a 9-cents-per-gallon exemption would receive a 6-cents-per-gallon exemption for 1986 through 1992. Also, the income tax credit of 60 cents per gallon for alcohol blended with gasoline, diesel fuel, or special motor fuels for use as a fuel would be repealed as of January 1, 1986.

## 7. Deposit of Social Security Payroll Taxes for Covered Employees of State and Local Governments

### *Present Law*

State governments currently are required to make deposits twice a month of social security contributions on their own behalf and for sub-State entities (sec. 218(e)(1) of the Social Security Act). The States are liable for all such payments under current agreement with the Secretary of Health and Human Services. Payments of social security taxes are first made by the local subdivisions to the State, which also is responsible for verifying the payments. Then, the State deposits with the Federal Government these payments and the appropriate amounts with respect to its own employees.

Private employers are required to make tax payments under a schedule that generally relates the frequency of deposits to the amount of taxes withheld (Code sec. 6302). Large employers may make deposits as frequently as eight times a month, while small employers may make them as infrequently as once every 3 months. (These rules also apply to deposits of Federal income taxes withheld by State and local governments from their employees.)

Late deposits by State governments are subject to an interest charge of 6 percent. Private sector employers pay an interest rate that is based on the prime interest rate charged by major commercial banks. This rate is adjusted semi-annually.

### *President's Budget Proposal*

The President's budget proposal would remove the States from the intermediary role of collecting social security contributions from sub-State entities and put all State and local government employers under a direct depositing requirement with a schedule that conforms with the frequency required of private employers. States would be relieved of liability for the social security contributions owed by sub-State governments. In addition, the proposal would subject State and local governments to the same interest charge and penalties for late deposits as are imposed on private employers.

The proposal would be effective over a 3-year period, beginning October 1, 1986.

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[20] See also H. Rep. No. 99-426, December 7, 1985, pp. 223-225.

## 8. Tax Treatment of Railroad Retirement Benefits

### *Present Law*

Under present law (Code sec. 86), a portion of Railroad Retirement system benefits computed by using the social security benefit formula (tier 1) is subject to Federal income tax in the same manner as social security benefits, i.e., for individuals whose incomes exceed certain levels (generally, $25,000 for unmarried individuals and $32,000 for married individuals filing a joint return). These benefits may be available at an earlier age under the Railroad Retirement system than under the social security system or may be paid on account of disability that would not qualify for social security disability benefits. Other benefits under the Railroad Retirement system are subject to Federal income tax for all recipients to the extent that the payments exceed the amount of the individual's previously taxed contributions to the plan.

### *President's Budget Proposal*

Under the President's budget proposal, the portion of tier 1 Railroad Retirement benefits that is taxable in the same manner as social security benefits would be limited to the portion of tier 1 benefits that equals the social security benefits to which the individual would have been entitled if all of the individual's employment on which the annuity is based had been employment for social security benefit purposes. In addition, a minimum monthly annuity benefit (described in sec. 3(f)(3) of the Railroad Retirement Act of 1974) would be taxed in the same manner as social security benefits. Other tier 1 Railroad Retirement benefits would be taxed under the rules that apply to all other payments under the Railroad Retirement system.

These provisions would be effective for monthly benefits for which the generally applicable payment date is after December 31, 1986.

### *Congressional Action*

The conference report for the Consolidated Omnibus Budget Reconciliation Act of 1985 (H.R. 3128) [21] contains provisions similar to those in the President's proposal. The conference report has not yet been agreed to by the Congress.

## 9. Railroad Disability and Pension Provisions

### *Present Law*

The Railroad Retirement Board ("RRB") administers retirement and disability benefits to former railroad employees, their dependents, and survivors. Under present law, RRB payments include benefits equivalent to social security retirement and disability benefits, as well as rail industry pensions and Federally subsidized windfall payments.

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[21] H. Rep. No 99-453, December 19, 1985, pp. 637-638.

RRB benefits are financed through payroll deductions by railroad employers and employees, payments from social security trust funds, and direct Federal subsidies from general revenues. Not including $0.2 billion of interest payments from RRB to Treasury, estimated fiscal year 1987 outlays are $3.8 billion. These outlays include $352 million for the Federal windfall subsidy component, which represents an annual subsidy of some $1,000 per active railroad employee.

Unlike individuals receiving direct social security disability payments, persons receiving social security equivalent railroad retirement disability benefits do not have their continuing eligibility reviewed. In addition, the rail sector equivalent of workers' compensation provided under the Federal Employees' Liability Act is not offset against rail disability benefits.

### *President's Budget Proposal*

The President's budget proposal would require that the Secretary of Health and Human Services conduct continuing reviews of the railroad retirement disability rolls. The proposal would also require that the rail sector equivalent of workers' compensation provided under the Federal Employers' Liability Act, be treated like regular workers' compensation, and payments offset against rail disability payments.

In addition, the proposal would (1) freeze cost-of-living adjustments on rail pensions for 1 year; (2) require the railroad retirement trust funds to pay the full normal costs of RRB employees' pensions less employee contributions; and (3) require the rail sector to finance 25 percent of Federal windfall subsidy costs.[22] Although it is not directly stated in the President's budget proposal, it is intended that a tax will be imposed on rail sector employers to finance the windfall subsidy costs.

## 10. Railroad Unemployment Tax

### *Present Law*

Under present law, railroad employment is not covered by the Federal-State unemployment insurance system. Instead, railroad employees are covered by a separate Railroad Sickness and Unemployment Insurance Fund, which is financed by payroll taxes levied on rail employers.

Before expiring December 19, 1985, the railroad unemployment insurance (RRUI) program had authority to borrow from the railroad retirement program in order to pay RRUI benefits. The Railroad Retirement Solvency Act of 1983 established a loan repayment tax, beginning at 2.0 percent on July 1, 1986, and increasing to 2.3 percent for 1987, 2.6 percent for 1988, 2.9 percent for 1989, and 3.2 percent for 1990. The tax expires after September 30, 1990.

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[22] The budget proposal (p. 5–112) also indicates that the President will propose reforms providing for short-term savings and privatization of rail industry pensions.

*President's Budget Proposal*

The President's budget proposal would extend coverage under the Federal-State unemployment insurance system to railroad employment. In addition, a transitional program would be developed to guarantee certain levels of benefits for rail workers who become unemployed after September 30, 1986. The Railroad Sickness and Unemployment Insurance Fund would continue to finance sickness payments and to repay the Fund's debt to the rail industry pension fund.

*Congressional Action*

The conference report on the Consolidated Omnibus Budget Reconciliation Act of 1985 (H.R. 3128) [23] would make permanent the authority of the RRUI program to borrow from the railroad retirment program. H.R. 3128 also would change the schedule for the loan repayment tax, as follows: 4.3 percent beginning on July 1, 1986, 4.7 percent for 1987, 6.0 percent for 1988, 2.9 percent for 1989, and 3.2 percent for 1990. The tax would expire after September 30, 1990. In addition, there would be a loan surtax of 3.5 percent on the loan repayment tax base if the RRUI program borrows from the retirement program.

**11. Internal Revenue Service Provisions**

**a. IRS user fees**

*Present Law*

The Internal Revenue Service (IRS) currently does not charge taxpayers for issuing determination letters or private letter rulings. In 1984, the IRS issued 106,353 advance determination letters on the qualification of corporate and self-employed pension plans, and acted on 69,613 applications and ruling requests from tax-exempt organizations during that year. The IRS also issued 34,246 private letter rulings in response to taxpayers' requests during 1984.

*President's Budget Proposal*

The President's budget proposes to impose user fees for each determination letter and private letter ruling issued by the IRS. The level of the fees is not specified; they are to reflect the complexity of the individual case and the IRS resources needed to process the request. These fees are proposed to become effective on October 1, 1986.

**b. Cost-of-collection charge**

*Present Law*

A taxpayer who fails to pay taxes when due must pay a penalty of one-half of one percent of the tax for the first month not paid. An additional one-half of one percent is charged for each month

[23] H. Rep. No. 99-453, December 19, 1985, pp. 631-32.

the failure to pay continues, up to a maximum of 25 percent. Interest is imposed on unpaid taxes, but is not generally imposed on penalties.

### *President's Budget Proposal*

The President's budget proposes to impose a cost-of-collection charge, designed to recoup the cost of collecting delinquent amounts. The proposal would increase the current penalty for failure to pay taxes from one-half of one percent to one percent after certain payment deadlines (which are unspecified) have passed. The President's budget also proposes to impose interest on penalties. The proposal would be effective for returns due after December 31, 1986.

### *Congressional Action*

H.R. 3838 (The Tax Reform Act of 1985, as passed by the House of Representatives on December 17, 1985) would increase the penalty for failure to pay taxes from one-half of one percent to one percent per month (up to the 25-percent limit) after the taxpayer has been notified that the IRS will levy upon the taxpayer's assets to collect the past-due taxes. This is the point at which the IRS generally uses more expensive collection methods. This provision was included in place of a cost-of-collection charge.[24]

**c. Tax compliance initiative**

### *Present Law*

In fiscal year 1985, the IRS had approximately 29,000 examination employees. These employees are responsible for auditing tax returns. The examination process is not fully computerized, and examination employees are not currently provided with portable computers.

### *President's Budget Proposal*

The President's budget proposal would increase the number of examination employees by 2,500 a year for fiscal years 1987, 1988, and 1989, resulting in an aggregate increase in examination employees of 7,500 by the end of fiscal year 1989. Advance hiring would begin in fiscal year 1986.

The President's budget proposal would also provide IRS examination employees with portable computers, beginning in fiscal year 1987. In subsequent years, additional desk-top and mainframe computers would be added and linked.

### *Congressional Action*

The conference report on the Consolidated Omnibus Budget Reconciliation Act of 1985 (H.R. 3128)[25] authorizes to be appropriated $46.5 million (in addition to any other appropriated amounts) for

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[24] *See* H. Rep. No. 99-426 (December 7, 1985), pp. 831-832 (Ways and Means Committee Report).

[25] H. Rep. No. 99-453, December 19, 1985.

each of fiscal years 1986, 1987, and 1988 to hire 1,550 additional IRS agents and examination employees. The conference report also includes a sense of the Congress resolution that the restoration of the IRS funding cuts initially proposed by the Administration and the further increase of $76 million for fiscal year 1986 recommended by the House Committee on Appropriations in H.R. 3036 as reported are necessary for the efficient operation of the Government and to carry out the purposes of the budget reconciliation bill. The conference report has not yet been agreed to by the Congress.

### 12. Pension Benefit Guaranty Corporation Premiums and Insurance

#### *Present Law*

Under present law, if a single-employer defined benefit pension plan is terminated by a sponsoring employer with assets insufficient to pay benefits guaranteed by the Pension Benefit Guaranty Corporation ("PBGC"), then the PBGC pays the monthly benefits required by the particular plan, up to the guaranteed levels. Subject to certain limits, the PBGC guarantees nonforfeitable retirement benefits other than those that become nonforfeitable on account of the termination of the plan.

If a single-employer defined benefit pension plan is terminated with assets insufficient to pay benefits at the level guaranteed by the PBGC, then the employer is liable to the PBGC for the insufficiency. However, the employer's liability is limited to 30 percent of the employer's net worth (determined as of the date of termination).

PBGC revenues include premiums charged to all employers with defined benefit plans, earnings on investments, and collections from sponsors of terminated plans. Single-employer plans currently pay an annual premium of $2.60 per participant.

#### *President's Budget Proposal*

The President's budget proposal would increase the current annual premium of $2.60 per participant paid by single-employer plans. The budget estimate assumes a premium of $8.10, but a higher premium may be proposed.

The President's budget proposal also indicates support for legislation to revise the insurance program for single-employer plans in order to preclude the unwarranted assignment to the PBGC of liabilities for unfunded benefits.

#### *Congressional Action*

The conference report for the Consolidated Omnibus Budget Reconciliation Act of 1985 (H.R. 3128)[26] contains provisions that would increase the annual PBGC premium to $8.50 per participant, for plan years beginning after December 31, 1985, and would revise the single-employer plan termination insurance provisions. The conference report has not yet been agreed to by the Congress.

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[26] H. Rep. No. 99-453, December 19, 1985, pp. 567-568.

## B. Revenue Reduction Items [27]

### 1. Education Savings Accounts

#### *Present Law*

Under present law, there is no specific provision that permits deductions for, or excludes from tax the income on, amounts contributed by an individual to a trust or account to pay education expenses of the individual or a child of the individual.

#### *President's Budget Proposal*

Effective January 1, 1987, the President's budget proposal would create a permanent tax exclusion for all interest and dividends earned on amounts deposited by parents in qualified education savings accounts, provided the deposits were used for eligible education expenses of their children. No deductions would be permitted for contributions to the account. If amounts were withdrawn from the account and not applied to eligible education expenses, the tax otherwise due on the earnings would be recaptured and a penalty tax generally would be imposed.

In general, eligible education expenses would include tuition and room and board for a full-time student enrolled in a post-secondary education program leading to a degree or certificate. Eligible expenses for a part-time (but not less than half-time) student would be tuition only. Amounts paid to schools that follow a racially discriminatory policy would not be treated as eligible expenses.

Deposits to these accounts would be subject to a number of limitations. First, under the proposal, the maximum annual contribution to a qualified education savings account would be $1,000 per child. However, the $1,000 limit would be reduced by 5 percent of the amount by which the taxpayer's adjusted gross income exceeds $40,000. Thus, no contribution could be made by a taxpayer whose adjusted gross income exceeds $60,000. Second, contributions could be made only on behalf of a child under the age of 18, and in no case could an account be maintained after the beginning of the taxable year in which a child attains age 26.

#### *Prior Action*

The President proposed the same exclusion for income on education savings accounts as part of the proposed budgets for fiscal years 1984, 1985, and 1986.

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[27] The FY 1987 Budget indicates that after tax reform legislation has been enacted, the President is planning to repropose an enterprise zone program that would provide tax incentives for redevelopment of economically distressed areas (Part 4, p. 4-12).

## 2. Tuition Tax Credit

### *Present Law*

Present law does not provide any tax credit or deduction for personal educational expenses.

### *President's Budget Proposal*

The President's budget proposal would provide a nonrefundable income tax credit equal to 50 percent of certain tuition expenses paid to private elementary and secondary schools for qualified dependents of the taxpayer, subject to a dollar limitation. No credit would be allowed for payments to any school that follows a racially discriminatory policy.

The credit would apply to tuition payments made after July 31, 1986. The maximum credit would be $100 in 1986, $200 in 1987, and $300 in 1988 and subsequent years. Additionally, the maximum credit would be phased down for taxpayers with adjusted gross incomes greater than $40,000, with no credit being allowed to taxpayers with adjusted gross incomes in excess of $60,000.

### *Prior Action*

The President proposed a similar credit for tuition expenses as part of the proposed budgets for fiscal years 1984, 1985, and 1986.

During the 98th Congress, the Senate Committee on Finance reported a bill, S. 528 (S. Rep. 98-154, June 20, 1983), containing provisions similar to the President's budget proposal. In 1983, the Senate considered, but did not adopt, the provisions of S. 528 as an amendment in the nature of a substitute to H.J. Res. 290.

## III. TREASURY'S ESTIMATED BUDGET EFFECTS OF PRESIDENT'S REVENUE PROPOSALS, FISCAL YEARS 1986–1989

[Billions of dollars]

| Item | 1986 | 1987 | 1988 | 1989 | 1986–89 |
|---|---|---|---|---|---|
| ***A. Proposals Involving Increases in Revenue*** | | | | | |
| 1. Cigarette excise tax [1] | 0.8 | 1.7 | 1.7 | 1.7 | 5.8 |
| 2. Hazardous substance response trust fund (Superfund) [1] | | .1 | .1 | .1 | .2 |
| 3. Black lung disability trust fund [1] | | .2 | .2 | .2 | .6 |
| 4. Inland waterways trust fund [1] | | | (*) | (*) | (*) |
| 5. Harbor (port) trust fund [2] | | .2 | .2 | .2 | .7 |
| 6. Repeal gasohol and bus excise tax exemptions [1] | | .2 | .2 | .2 | .7 |
| 7. State and local deposit of payroll taxes | | .4 | .3 | 1.2 | 1.8 |
| 8. Railroad retirement benefits | | (*) | .1 | .1 | .2 |
| 9. Railroad disability and pensions | | .1 | .1 | .1 | .3 |
| 10. Railroad unemployment insurance | | .1 | .1 | .1 | .4 |
| 11a. IRS user fees | | (*) | (*) | (*) | .1 |
| 11b. IRS cost of collection charge | | .3 | .4 | .4 | 1.1 |
| 11c. IRS compliance initiative | | .6 | 1.5 | 2.6 | 4.7 |
| 11d. IRS automated examination system | | .3 | .8 | 1.2 | 2.3 |
| 12. Pension Benefit Guaranty Corporation premiums [3] | .2 | .2 | .2 | .2 | 1.9 |
| **Total, revenue increases** | **.8** | **4.1** | **5.6** | **7.8** | **18.2** |
| ***B. Proposals Involving Reductions in Revenue*** | | | | | |
| 1. Higher education savings accounts | | (*) | −.2 | −.3 | −.5 |
| 2. Tuition tax credit | | −.4 | −.6 | −.9 | −1.9 |
| **Total, revenue reductions** | | **−.4** | **−.8** | **−1.2** | **−2.4** |

| | | | | | |
|---|---|---|---|---|---|
| *C. Addendum* [4] | | | | | |
| 1. Increase in employee contribution to civil service retirement | | .9 | 1.2 | 1.2 | 3.3 |
| 2. Increase in D.C. employer contribution to civil service retirement | | (*) | (*) | .1 | .1 |
| 3. Petroleum overcharge restitution fund | | 1.0 | | | 1.0 |
| 4. Nuclear Regulatory Commission user fees | | .2 | .2 | .2 | .5 |
| 5. Other fees | −.1 | .4 | −.3 | −1.0 | −.9 |
| **Total, addendum** | **−.1** | **2.5** | **1.1** | **.4** | **4.0** |
| **Total budget effect** | **.7** | **6.3** | **5.9** | **6.9** | **19.8** |

*$50 million or less.
[1] Net of income tax offsets.
[2] This provision is classified by the Treasury as an offsetting receipt, and therefore is not reflected in totals.
[3] This provision is classified as a negative outlay, and therefore is not reflected in totals.
[4] Additional revenue items in the President's FY 1987 Budget which are not described in this pamphlet.

NOTE.—Details may not add to totals due to rounding.

Source: Estimates provided by the Office of the Secretary of the Treasury.

## APPENDIX: ADDITIONAL REVENUE TABLES

### Table A-1.—Budget Receipts by Source, Fiscal Years 1985-91 [1]

[Billions of dollars]

| Source | 1985 actual | Estimate | | | | | |
|---|---|---|---|---|---|---|---|
| | | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
| Individual income taxes | 334.5 | 353.7 | 386.0 | 425.9 | 455.5 | 482.0 | 516.3 |
| Corporation income taxes | 61.3 | 70.9 | 86.7 | 101.2 | 111.8 | 119.7 | 125.6 |
| Social insurance taxes and contributions | 265.2 | 280.4 | 302.8 | 335.0 | 358.1 | 384.1 | 407.7 |
| Excise taxes | 36.0 | 34.6 | 35.2 | 33.4 | 32.7 | 33.2 | 33.6 |
| Estate and gift taxes | 6.4 | 6.1 | 5.7 | 5.4 | 5.1 | 5.4 | 5.8 |
| Customs duties | 12.1 | 12.4 | 12.9 | 13.6 | 14.1 | 14.7 | 15.4 |
| Miscellaneous receipts[2] | 18.5 | 19.0 | 21.1 | 18.7 | 18.7 | 19.0 | 19.6 |
| **Total, budget receipts** | **734.1** | **777.1** | **850.4** | **933.2** | **996.1** | **1,058.1** | **1,124.0** |

[1] Estimates assume adoption of Administration's revenue proposals contained in the Fiscal Year 1987 Budget, as well as currently scheduled tax rate reductions or expirations.

[2] Principally deposits of Federal Reserve Bank earnings.

Note: See also Table 5 in Part I (Overview) for a percentage composition of budget reciepts.

Source: Budget of the United States, Fiscal Year 1987.

## Table A-2.—The Effect on Fiscal Year Receipts of the Economic Recovery Tax Act of 1981, 1983–91 [1]

[Millions of dollars]

| Item | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|---|---|---|
| ***Individual income tax reductions:*** | | | | | | | | | |
| General rate reductions | −57,575 | −87,782 | −100,320 | −108,709 | −121,844 | −135,909 | −148,511 | −159,869 | −172,372 |
| Top marginal rate | −2,179 | −1,052 | −633 | −712 | −812 | −936 | −1,062 | −1,189 | −1,331 |
| Deduction for two-earner married couples | −3,114 | −6,174 | −6,711 | −7,079 | −7,788 | −8,682 | −9,563 | −10,414 | −11,341 |
| Indexing | | | −5,326 | −13,566 | −22,180 | −33,500 | −46,194 | −58,752 | −71,310 |
| Child and dependent care credit and dependent care assistance exclusion | −201 | −227 | −266 | −304 | −342 | −381 | −418 | −453 | −490 |
| Charitable contributions deduction for nonitemizers | −122 | −162 | −498 | −1,850 | −2,939 | | | | |
| Rollover and exclusion of gain from sale of residence | −105 | −116 | −127 | −140 | −154 | −169 | −186 | −204 | −223 |
| Foreign earned income | −544 | −563 | −618 | −696 | −784 | −872 | −998 | −1,142 | −1,306 |
| Total, individual | −63,839 | −96076 | −114,499 | −133,056 | −156,843 | −180,449 | −206,932 | −232,023 | −258,373 |
| ***Capital cost recovery provisions:*** | | | | | | | | | |
| Accelerated cost recovery system | −18,056 | −26,000 | −35,596 | −49,652 | −60,445 | −64,619 | −66,346 | −70,157 | −72,964 |
| Used property limitation for ITC | −74 | −85 | −137 | −195 | −209 | −243 | −262 | −296 | −333 |
| Other provisions | −43 | −36 | 12 | 31 | 17 | −45 | −48 | −51 | −89 |
| Total, capital cost recovery | −18,173 | −26,121 | −35,721 | −49,816 | −60,637 | −64,907 | −66,656 | −70,504 | −73,386 |
| ***Rehabilitation expenditure provisions*** | −208 | −239 | −302 | −409 | −579 | −793 | −1,039 | −1,267 | −1,545 |
| ***Incentives for research and development:*** | | | | | | | | | |
| Tax credit for research and experimentation | −999 | −1,204 | −1,415 | −883 | −352 | −153 | −35 | | |
| Other provisions | −120 | −62 | | | | | | | |
| Total, research and development | −1,119 | −1,266 | −1,415 | −883 | −352 | −153 | −35 | | |

## Table A-2.—The Effect on Fiscal Year Receipts of the Economic Recovery Tax Act of 1981, 1983–91 [1]—Continued

[Millions of dollars]

| Item | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|---|---|---|
| *Small business provisions:* | | | | | | | | | |
| Accumulated earnings credit and subchapter S rules | −53 | −63 | −73 | −85 | −99 | −101 | −103 | −105 | −107 |
| LIFO inventory and small business accounting | −184 | −192 | −145 | −64 | −72 | −74 | −80 | −86 | −92 |
| Total, small business | −237 | −255 | −218 | −149 | −171 | −175 | −183 | −191 | −199 |
| *Windfall profit tax and other energy provisions* | −494 | −388 | −213 | −135 | −79 | −49 | −37 | −13 | −13 |
| *Corporate rate reductions and other business provisions:* | | | | | | | | | |
| Corporate tax rate reductions | −258 | −329 | −413 | −441 | −461 | −482 | −497 | −512 | −527 |
| Other provisions | −84 | −14 | 74 | 163 | 206 | 233 | 254 | 272 | 290 |
| Total, corporate rates and other business provisions | −342 | −343 | −339 | −278 | −255 | −249 | −243 | −240 | −237 |
| *Savings incentives provisions:* | | | | | | | | | |
| Keogh plans | −157 | −173 | −183 | −201 | −221 | −243 | −270 | −300 | −333 |
| Extend IRA eligibility to qualified plan participants | −6,787 | −7,835 | −9,044 | −10,300 | −11,464 | −12,562 | −13,977 | −15,587 | −17,430 |
| Increased IRA deduction for individuals not participating in qualified plans | −652 | −683 | −753 | −842 | −922 | −994 | −1,091 | −1,198 | −1,318 |
| Partial dividend and interest exclusion | −1,616 | ..... | −941 | −2,919 | −3,271 | −3,664 | −4,102 | −4,592 | −5,140 |
| Tax-exempt savings certificates | −1,224 | −320 | ..... | ..... | ..... | ..... | ..... | ..... | ..... |
| ESOPs | −249 | −974 | −2,073 | −2,985 | −3,443 | −2,427 | −1,002 | −578 | −296 |
| Dividend reinvestment plans | −365 | −416 | −449 | −278 | ..... | ..... | ..... | ..... | ..... |
| Other provisions | −24 | −27 | −9 | ..... | ..... | ..... | ..... | ..... | ..... |
| Total, savings incentives | −7,842 | −10,428 | −13,452 | −17,525 | −19,321 | −19,890 | −20,442 | −22,255 | −24,517 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| ***Estate and gift tax provisions*** | −2,375 | −3,510 | −4,907 | −6,515 | −8,058 | −9,551 | −10,425 | −11,339 | −12,333 |
| ***Tax straddles*** | 942 | 1,015 | 1,134 | 1,303 | 1,279 | 1,538 | 1,909 | 2,369 | 2,939 |
| ***Administrative provisions*** | 1,198 | 1,300 | 560 | 1,075 | 1,167 | 1,303 | 1,002 | 1,005 | 983 |
| ***Miscellaneous provisions*** | −9 | −197 | −939 | −1,100 | −906 | −620 | −643 | −658 | −674 |
| **Grand total, all revenue provisions** | **−92,499** | **−136,508** | **−170,311** | **−207,488** | **−244,757** | **−273,995** | **−303,724** | **−335,116** | **−367,355** |

[1] Does not show detail of fiscal year 1981, and 1982 revenue effects, which totalled—$336 million and 41,114 million, respectively.
Source: U.S. Department of the Treasury.

## Table A-3. The Effect on Fiscal Year Receipts of the Tax Equity and Fiscal Responsibility Act of 1982, 1983-91[1]

[Millions of dollars]

| Item | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|---|---|---|
| ***Individual provisions:*** | | | | | | | | | |
| Individual minimum tax | | 686 | 788 | 892 | 979 | 1,074 | 1,251 | 1,351 | 1,459 |
| Deductions for medical expenses | 268 | 1,773 | 1,729 | 1,901 | 2,089 | 2,296 | 2,523 | 2,772 | 3,047 |
| Deductions for casualty losses | | 667 | 737 | 818 | 908 | 1,008 | 1,119 | 1,242 | 1,379 |
| Total, individual | 268 | 3,126 | 3,254 | 3,611 | 3,976 | 4,376 | 4,893 | 5,366 | 5,885 |
| ***Business provisions:*** | | | | | | | | | |
| Business tax preferences | 381 | 534 | 584 | 588 | 626 | 684 | 743 | 805 | 871 |
| Basis adjustment for investment tax credit | 362 | 1,377 | 2,721 | 4,177 | 5,642 | 6,869 | 7,721 | 8,493 | 9,342 |
| Limitation on investment tax credit | 152 | 259 | 208 | 174 | 148 | 135 | 124 | 131 | 158 |
| ACRS | | | 1,507 | 9,996 | 17,938 | 18,270 | 14,853 | 12,546 | 10,609 |
| Construction period interest and taxes | 631 | 1,573 | 1,721 | 1,401 | 1,032 | 641 | 341 | 119 | −17 |
| Leasing | 1,036 | 2,425 | 4,101 | 5,350 | 6,860 | 8,528 | 9,831 | 11,160 | 12,160 |
| Foreign oil and gas | 200 | 438 | 508 | 569 | 621 | 672 | 727 | 787 | 852 |
| Possessions and Virgin Island Corporations | 233 | 492 | 526 | 586 | 654 | 728 | 810 | 902 | 1,004 |
| Tax-exempt bonds | 36 | 284 | 579 | 809 | 1,155 | 1,799 | 2,459 | 3,185 | 4,125 |
| Mergers and acquisitions | 427 | 749 | 959 | 1,014 | 1,065 | 1,083 | 1,101 | 1,120 | 1,139 |
| Accounting for long-term contracts | 740 | 1,658 | 1,755 | 1,672 | 1,495 | 1,424 | 1,538 | 1,661 | 1,794 |
| Accelerated corporate payments | 1,039 | 4,065 | 483 | 1,365 | 1,092 | 721 | 377 | 250 | 166 |
| Original issue discount and strips | 163 | 310 | 465 | 629 | 808 | 1,017 | 1,281 | 1,614 | 2,035 |
| Total, business | 5,400 | 14,164 | 16,117 | 28,330 | 39,136 | 42,571 | 41,907 | 42,773 | 44,238 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| ***Compliance:*** | | | | | | | | | |
| Withholding on dividends and interest | 134 | 2,888 | 3,030 | 3,030 | 2,875 | 3,074 | 3,320 | 3,941 | 4,305 |
| Other compliance | 1,382 | 2,282 | 3,338 | 4,404 | 4,860 | 5,208 | 5,577 | 5,984 | 6,433 |
| Additional IRS personnel | 3,000 | 3,500 | 3,500 | 1,900 | 800 | ..... | ..... | ..... | ..... |
| Total, compliance | 4,516 | 8,670 | 9,868 | 9,334 | 8,535 | 8,282 | 8,897 | 9,925 | 10,738 |
| ***Pension provisions*** | 194 | 630 | 459 | 558 | 583 | 646 | 719 | 748 | 780 |
| ***Insurance provisions*** | 2,003 | 2,148 | 2,773 | 3,064 | 3,397 | 3,766 | 4,175 | 4,629 | 5,131 |
| ***Employment tax provisions:*** | | | | | | | | | |
| Independent contractors | −117 | −107 | −79 | −85 | −92 | −97 | −108 | −106 | −117 |
| Federal unemployment tax | 1,102 | 1,731 | 1,710 | 1,385 | 1,100 | 940 | 1,017 | 1,072 | 1,150 |
| Extended medicare tax to Federal employees | 657 | 893 | 958 | 1,086 | 1,181 | 1,265 | 1,355 | 1,451 | 1,555 |
| Lower unemployment ins. taxable threshold | 691 | 741 | 580 | 524 | 498 | 465 | 430 | 430 | 430 |
| Total employment tax | 2,333 | 3,258 | 3,169 | 2,910 | 2,687 | 2,573 | 2,694 | 2,847 | 3,018 |
| ***Excise tax provisions:*** [2] | | | | | | | | | |
| Airport and airway taxes [3] | 668 | 819 | 942 | 982 | 1,057 | −491 | −1,554 | −1,697 | −1,856 |
| Cigarette tax increase | 1,202 | 1,625 | 1,615 | 133 | ..... | ..... | ..... | ..... | ..... |
| Telephone tax increase | 558 | 981 | 1,437 | 648 | ..... | ..... | ..... | ..... | ..... |
| Repeal windfall profit TAPS adjustment | 46 | 34 | −4 | ..... | ..... | ..... | ..... | ..... | ..... |
| Total, excise tax provisions | 2,474 | 3,459 | 3,990 | 1,763 | 1,057 | −491 | −1,554 | −1,697 | −1,856 |

## Table A–3. The Effect on Fiscal Year Receipts of the Tax Equity and Fiscal Responsibility Act of 1982, 1983–91[1]—Continued

[Millions of dollars]

| Item | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|---|---|---|
| ***Miscellaneous provisions:*** | | | | | | | | | |
| Extension of the targeted jobs credit | −122 | −304 | −401 | −324 | −184 | −103 | −50 | −13 | −3 |
| Other provisions | −38 | −37 | −34 | −32 | −30 | −30 | −30 | | |
| Total misc. provisions | −160 | −341 | −435 | −356 | −214 | −133 | −80 | −13 | −3 |
| **Total revenue effect** | **17,028** | **35,114** | **39,195** | **49,214** | **59,157** | **61,592** | **61,651** | **64,578** | **67,930** |
| ***Outlays:*** | | | | | | | | | |
| Computation of interest on refunds | 649 | 676 | 473 | 551 | 520 | 402 | 354 | 298 | 251 |
| **Total budget effect of revenue provisions** | **17,677** | **35,790** | **39,668** | **49,765** | **59,677** | **61,994** | **62,005** | **64,876** | **68,181** |

[1] Does not show detail of fiscal year 1982 revenue effects, which totalled $4 million.
[2] Net effect on budget receipts, after income tax offset.
[3] Revenue losses in fiscal years 1988–1991 reflect termination on December 31, 1987, of the 5-percent air passenger ticket tax. TEFRA increased the tax by 3 percentage points and made the December 31, 1987, expiration date applicable to the entire 8 percent air passenger ticket tax.

Source: U.S. Department of the Treasury.

## Table A-4.—The Effect on Fiscal Year Receipts of the Social Security Amendments of 1983, 1984–91

[Millions of dollars]

| Item | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|---|---|
| Prohibit State and local government withdrawal | 64 | 187 | 362 | 579 | 779 | 972 | 1,064 | 1,165 |
| Include all nonprofit institutions | 1,050 | 1,734 | 2,055 | 2,267 | 2,734 | 3,095 | 3,444 | 3,832 |
| Include new Federal employees | 76 | 320 | 538 | 757 | 1,005 | 1,238 | 1,542 | 1,817 |
| Accelerate 1985 FICA/RRTA tax rate increase to 1984: | | | | | | | | |
| Increase in rate | 6,505 | 2,377 | ..... | ..... | ..... | ..... | ..... | ..... |
| Employee tax credit | −3,250 | −1,181 | ..... | ..... | ..... | ..... | ..... | ..... |
| Total | 3,255 | 1,196 | ..... | ..... | ..... | ..... | ..... | ..... |
| Increase FICA/RTA tax rate to 6.06 percent on Jan. 1, 1988 | ..... | ..... | ..... | ..... | 10,539 | 14,965 | 3,944 | ..... |
| Reduction in income tax receipts associated with increases in employer contributions | −1,029 | −419 | −350 | −402 | −1,799 | −2,182 | −828 | ..... |
| Increase SECA tax rate: | | | | | | | | |
| Rate increase | 1,450 | 4,222 | 3,955 | 4,089 | 4,338 | 4,598 | 4,365 | ..... |
| Tax credit | −843 | −2,381 | −2,072 | −2,099 | −2,256 | −2,416 | −2,084 | ..... |
| Total | 607 | 1,841 | 1,883 | 1,990 | 2,082 | 2,182 | 2,281 | ..... |
| Tax 50 percent of social security and tier 1 railroad benefits | 882 | 3,063 | 3,426 | 3,754 | 4,283 | 4,865 | 5,470 | 6,047 |
| Employment taxation of retirement arrangements | 134 | 224 | 270 | 322 | 388 | 447 | 504 | 566 |
| Provisions for the elderly and disabled | 1 | 4 | 6 | 7 | 9 | 11 | 13 | 15 |

**Table A-4.—The Effect on Fiscal Year Receipts of the Social Security Amendments of 1983, 1984-91—Continued**

[Millions of dollars]

| Item | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|---|---|
| State and local government deposit schedule.. | 406 | 658 | 88 | 71 | 130 | −720 | 38 | 907 |
| Unemployment insurance debt repayment[2] ... | −74 | −259 | −461 | −457 | −358 | −250 | −150 | −50 |
| Other provisions ..... | 560 | 200 | 196 | 211 | 233 | 254 | −556 | 452 |
| **Grand total** ..... | **5,532** | **8,749** | **8,013** | **7,099** | **20,025** | **24,877** | **16,866** | **14,745** |

[1] Beginning in 1990, one-half of self-employment taxes will be allowed as a deduction from income. It is estimated that income tax receipts thus will be reduced by $1,126 million. This deduction is reflected in the estimated total for SECA modifications in 1990.
[2] Interest paid to the trust fund is included in budget outlays.

Source: U.S. Department of the Treasury.

## Table A-5.—The Effect on Fiscal Year Receipts of the Deficit Reduction Act of 1984, 1984-91

[Millions of dollars]

| Item | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|---|---|
| ***Tax freeze provisions:*** | | | | | | | | |
| Finance lease provisions | 63 | 348 | 862 | 1,381 | 1,424 | 741 | −137 | −456 |
| ESOPs | | 379 | 767 | 942 | 596 | 262 | 153 | 79 |
| Net interest exclusion | | 920 | 2,874 | 3,152 | 3,467 | 3,813 | 4,195 | 4,615 |
| Maximum estate and gift tax rates | | 3 | 251 | 332 | 381 | 3 | ..... | ..... |
| Alcohol excise taxes | | 142 | 411 | 439 | 438 | 440 | 439 | 455 |
| EFT for alcohol and tobacco taxes | | 319 | −52 | ..... | ..... | ..... | ..... | ..... |
| Investment credit for used property | | 49 | 104 | 115 | 87 | 31 | 6 | ..... |
| Expensing | 202 | 349 | 366 | 278 | −166 | −405 | −401 | −420 |
| COLAs in pension plan limitations | | | 17 | 64 | 106 | 115 | 84 | 61 |
| Foreign earned income exclusion | | 4 | 11 | 16 | 14 | 5 | (*) | (*) |
| Percentage depletion for secondary and tertiary oil and gas | −133 | −292 | −284 | −280 | −282 | −289 | −294 | −297 |
| Telephone excise tax extension | | | 1,111 | 1,913 | 760 | ..... | ..... | ..... |
| Total, tax freeze provisions | 132 | 2,221 | 6,438 | 8,352 | 6,825 | 4,716 | 4,045 | 4,037 |
| ***Leasing provisions:*** | | | | | | | | |
| Tax-exempt entities | 264 | 800 | 1,553 | 2,840 | 4,711 | 6,724 | 8,393 | 10,071 |
| ***Treatment of bonds:*** | | | | | | | | |
| Discount on bonds and short term obligations | 150 | 368 | 431 | 418 | 404 | 244 | 90 | 90 |
| Zero coupon municipal bonds (OID) | | 1 | 2 | 4 | 6 | 7 | 7 | 7 |
| Total, bond provisions | 150 | 369 | 433 | 422 | 410 | 251 | 97 | 97 |

## Table A-5.—The Effect on Fiscal Year Receipts of the Deficit Reduction Act of 1984, 1984-91—Continued

[Millions of dollars]

| Item | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|---|---|
| ***Corporate tax provisions:*** | | | | | | | | |
| Distributions from RICs | 2 | 4 | 4 | 4 | 5 | 5 | 5 | 5 |
| Extraordinary dividends | (*) | 140 | 100 | 100 | 100 | 100 | 100 | 100 |
| Nonliquidating distributions of appreciated property | 2 | 14 | 48 | 101 | 160 | 222 | 287 | 371 |
| Expenses incurred with short sales | 14 | 30 | 38 | 43 | 49 | 56 | 64 | 73 |
| Phase out corporate graduated rates | 114 | 235 | 278 | 304 | 330 | 359 | 384 | 428 |
| 20-percent corporate tax preference | | 236 | 357 | 400 | 458 | 512 | 586 | 671 |
| Earnings and profits | | 109 | 283 | 270 | 289 | 278 | 292 | 307 |
| Net operating loss carryover rules | −8 | −8 | −8 | −8 | −8 | −8 | −8 | −8 |
| "C" Reorganizations | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| "D" Reorganizations | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Collapsible corporations | 5 | 57 | 196 | 305 | 351 | 382 | 412 | 444 |
| Consolidated returns | | 5 | 20 | 39 | 39 | 19 | 10 | 5 |
| Holding period losses due to capital gain dividends of RIC, REIT | | * | 83 | 89 | 96 | 103 | 111 | 120 |
| Nonrecognition of gain or loss on options with respect to own stock | 2 | 3 | 4 | 4 | 4 | 4 | 4 | 4 |
| Amendments to accumulated earnings tax | | 62 | 78 | 33 | 35 | 36 | 39 | 42 |
| Total, corporate provisions | 133 | 891 | 1,485 | 1,688 | 1,912 | 2,072 | 2,290 | 2,566 |
| ***Partnerships:*** | | | | | | | | |
| Retroactive allocations | | 50 | 75 | 100 | 100 | 100 | 100 | 100 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Payment for services or property disguised sales | | 20 | 51 | 60 | 69 | 78 | 88 | 101 |
| Transfers of partnership interests by corporations | (*) | 50 | 50 | 50 | 50 | 50 | 50 | 50 |
| Like-kind exchanges | (*) | 82 | 362 | 667 | 788 | 842 | 972 | 1,103 |
| Partnership allocations—to contributed property | 4 | 61 | 147 | 178 | 240 | 298 | 311 | 327 |
| Contributions to a partnership—unrealized receivables, etc | | 24 | 63 | 66 | 67 | 69 | 71 | 73 |
| Total, partnerships | 4 | 287 | 748 | 1,121 | 1,314 | 1,437 | 1,592 | 1,754 |
| ***Trusts:*** | | | | | | | | |
| Multiple trusts | | 23 | 29 | 27 | 26 | 21 | 19 | 17 |
| Trust distributions | 25 | 139 | 311 | 409 | 438 | 467 | 501 | 537 |
| Total, trusts | 25 | 162 | 340 | 436 | 464 | 488 | 520 | 554 |
| ***Accounting changes:*** | | | | | | | | |
| Premature accruals | 152 | 415 | 510 | 491 | 399 | 373 | 349 | 327 |
| Vacation pay accruals | 48 | 105 | 97 | 60 | 40 | 35 | 34 | 33 |
| Prepaid expenses | 108 | 243 | 76 | 93 | 112 | 133 | 160 | 192 |
| Deferred payment transactions | | 228 | 721 | 1,253 | 1,789 | 2,349 | 3,013 | 3,597 |
| Deferred rental | 43 | 258 | 486 | 654 | 846 | 887 | 958 | 1,035 |
| Capitalization of construction period interest and taxes | | 159 | 235 | 204 | 141 | 105 | 75 | 54 |
| Amortize preopening expenditures | | 18 | 70 | 127 | 191 | 263 | 309 | 300 |
| Total, accounting changes | 351 | 1,426 | 2,195 | 2,882 | 3,518 | 4,145 | 4,898 | 5,538 |
| ***Tax straddles*** | 293 | 276 | 82 | 60 | 75 | 90 | 105 | 123 |
| ***Pensions, welfare benefit plans:*** | | | | | | | | |
| Distribution rules | | 2 | 2 | 3 | 3 | 3 | 3 | 3 |

## Table A-5.—The Effect on Fiscal Year Receipts of the Deficit Reduction Act of 1984, 1984-91—Continued

[Millions of dollars]

| Item | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|---|---|
| Pension plans with all benefits from employee contributions | (*) | 1 | 2 | 2 | 4 | 6 | 8 | 11 |
| Repeal estate tax exclusion | | | 50 | 50 | 50 | 50 | 50 | 50 |
| Welfare benefit plans | 15 | 83 | 120 | 162 | 202 | 245 | 299 | 365 |
| Medical benefits provided by pension plans | (*) | 7 | 7 | 7 | 7 | 7 | 7 | 7 |
| Total, pension and welfare benefit plans | 15 | 93 | 181 | 224 | 266 | 311 | 367 | 436 |
| *Foreign:* | | | | | | | | |
| Income from factoring trade receivables | (*) | 306 | 534 | 576 | 622 | 673 | 728 | 787 |
| Taxation of certain transfers of property outside the United States | | (*) | 12 | 127 | 324 | 540 | 584 | 632 |
| Use of territories to avoid U.S. tax | 2 | 4 | 5 | 5 | 5 | 5 | 5 | 5 |
| Recharacterization of U.S. income as foreign income | 13 | 60 | 64 | 70 | 76 | 82 | 88 | 94 |
| Recharacterization of interest income as dividend income | (*) | 67 | 118 | 129 | 142 | 157 | 174 | 193 |
| Definition of resident aliens | 5 | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Community property income—nonresident aliens | 2 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Foreign personal holding companies | | 1 | 3 | 3 | 3 | 3 | 3 | 3 |
| Stapled stock | | 1 | 3 | 3 | 3 | 3 | 3 | 3 |
| Current taxation of related party insurance | 26 | 44 | 46 | 49 | 51 | 54 | 58 | 62 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Withholding on U.S. real estate gains of foreign persons | 44 | 40 | 10 | 10 | 11 | 14 | 16 | 18 |
| 30-percent withholding of foreign persons | −2 | −33 | −65 | −62 | −40 | −10 | 30 | 55 |
| Treatment of transportation income | 5 | 13 | 17 | 18 | 19 | 20 | 21 | 22 |
| Total, foreign programs | 95 | 518 | 763 | 943 | 1,231 | 1,556 | 1,725 | 1,889 |
| ***Compliance provisions*** | | 60 | 171 | 256 | 311 | 334 | 361 | 390 |
| ***Depreciation:*** | | | | | | | | |
| 18-year ACRS for real property | 55 | 291 | 749 | 1,401 | 2,149 | 2,959 | 3,574 | 3,717 |
| Depreciation recapture in case of installment sales | 24 | 67 | 209 | 216 | 222 | 232 | 242 | 252 |
| Sound recordings | | 5 | 10 | 10 | 10 | 10 | 10 | 10 |
| Total, depreciation | 79 | 363 | 968 | 1,627 | 2,381 | 3,201 | 3,826 | 3,979 |
| ***Domestic relations tax reform:*** | | | | | | | | |
| Treatment of transfers of property between spouses | | (*) | (*) | −1 | −2 | −2 | −3 | −5 |
| Alimony | | 2 | 12 | 33 | 57 | 77 | 92 | 110 |
| Total, domestic relations | | 2 | 12 | 32 | 55 | 75 | 89 | 105 |
| ***Miscellaneous reform provisions:*** | | | | | | | | |
| Inclusions of tax benefit items in income | | 229 | 253 | 274 | 300 | 331 | 351 | 369 |
| Interest free loans | 20 | 88 | 158 | 189 | 210 | 231 | 254 | 279 |
| LIFO comformity | | 105 | 185 | 200 | 200 | 200 | 200 | 200 |
| Limitation of business use of property—luxury automobiles | 48 | 249 | 570 | 824 | 977 | 1,033 | 1,065 | 1,098 |
| Treatment of certain related party transactions | 46 | 109 | 176 | 253 | 346 | 416 | 440 | 465 |

## Table A-5.—The Effect on Fiscal Year Receipts of the Deficit Reduction Act of 1984, 1984-91—Continued

[Millions of dollars]

| Item | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 |
|---|---|---|---|---|---|---|---|---|
| Section 1231 losses | | 27 | 75 | 99 | 131 | 173 | 223 | 288 |
| Related party structures | | 2 | 10 | 15 | 17 | 18 | 20 | 21 |
| Repeal tax exemption for Freddie Mac | | 108 | 162 | 189 | 218 | 240 | 258 | 277 |
| Application of related party rule to section 265(2) | | 8 | 15 | 15 | 15 | 15 | 15 | 15 |
| Estimated payments of alternative minimum tax | | 611 | 45 | 49 | 52 | 56 | 60 | 64 |
| Changes in individual estimated tax | | 127 | −59 | −67 | −77 | −88 | −97 | −106 |
| Income averaging—140 percent, 3-year base | 82 | 2,019 | 1,846 | 2,004 | 2,180 | 2,360 | 2,542 | 2,738 |
| Total, misc. reform provisions | 196 | 3,682 | 3,436 | 4,044 | 4,569 | 4,985 | 5,331 | 5,708 |
| ***Life insurance tax provisions*** | −500 | −863 | −959 | −1,049 | −1,121 | −1,205 | −1,185 | −1,165 |
| ***Private foundation provisions*** | | −28 | −46 | −48 | −50 | −53 | −56 | −59 |
| ***Fringe benefits:*** | | | | | | | | |
| Cafeteria plans | −32 | −40 | −4 | | | | | |
| ***Foreign sales corporations*** | | −62 | −62 | 19 | 80 | 131 | 173 | 228 |
| ***Tax-exempt bonds:*** | | | | | | | | |
| Mortgage subsidy bonds and credit certificates | −90 | −407 | −856 | −1,308 | −1,630 | −1,648 | −1,502 | −1,369 |
| Industrial development bonds and miscellaneous provisions | −16 | −21 | 71 | 206 | 267 | 312 | 372 | 433 |
| Total, tax-exempt bonds | −106 | −428 | −785 | −1,102 | −1,363 | −1,336 | −1,130 | −936 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ***Highway revenue (excise tax) provisions*** | −152 | −103 | 18 | −33 | 109 | −20 | −87 | −90 |
| ***Estate and gift tax provisions:*** | | | | | | | | |
| Estate tax installment sales | (*) | −13 | −19 | −24 | −29 | −36 | −41 | −47 |
| Estate tax special credits | −22 | | | | | | | |
| Alternate valuation date | | 10 | 10 | 10 | 10 | 10 | 10 | 10 |
| Total, estate and gift | −22 | −3 | −9 | −14 | −19 | −26 | −31 | −37 |
| ***Charitable deductions:*** | | | | | | | | |
| Conservation easements | (*) | −5 | −5 | −5 | −5 | −5 | −5 | −5 |
| Volunteer mileage expense | | −5 | −37 | −43 | −51 | −60 | −72 | −86 |
| Total, charitable | | −10 | −42 | −48 | −56 | −65 | −77 | −91 |
| ***Exempt organizations*** | −24 | −46 | −58 | −73 | −91 | −114 | −143 | −179 |
| ***Excise taxes:*** | | | | | | | | |
| Sport fishing equipment, bows and arrows | | (*) | 10 | 10 | 10 | 10 | 10 | 10 |
| Exemption for certain helicopters from aviation excise tax | −2 | −4 | −4 | −5 | −2 | | | |
| Total, excise taxes | −2 | −4 | 6 | 5 | 8 | 10 | 10 | 10 |
| ***Employee benefits, ESOPs, IRAs:*** | | | | | | | | |
| Property transferred for performance of services | −5 | −5 | −6 | −7 | −10 | −13 | −16 | −20 |
| Employee stock ownership plans (ESOPs) | | −64 | −175 | −201 | −118 | −58 | −21 | −9 |
| IRAs—Alimony treated as compensation | | (*) | −1 | −1 | −1 | −1 | −1 | −1 |
| Total, employee benefits, etc | −5 | −69 | −182 | −209 | −129 | −72 | −38 | −30 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ***Income tax credits:*** | | | | | | | | |
| Reordering of income tax credits | 94 | 131 | 77 | 51 | 47 | 40 | 34 | 35 |
| 1-year targeted jobs tax credit extension | | −147 | −380 | −308 | −160 | −93 | −55 | −33 |
| Earned income credit | | −4 | −114 | −92 | −75 | −54 | −38 | −27 |
| Total, income tax credits | 94 | −20 | −417 | −349 | −188 | −107 | −59 | −25 |
| ***Research and vocational education:*** | | | | | | | | |
| 2-year R&D moritorium | −61 | −127 | −66 | | | | | |
| ***Capital gains and losses:*** | | | | | | | | |
| 6-month holding period | | (*) | −49 | −207 | −210 | −212 | 69 | 91 |
| ***Miscellaneous housing provisions:*** | | | | | | | | |
| Disaster loss deduction rules | −15 | −12 | −12 | −13 | −13 | −13 | −13 | −13 |
| Expenses for tax-free housing allowances | (*) | −1 | −3 | | | | | |
| Rollover of gain on sale of residence—military personnel | | −5 | −5 | −5 | −5 | −5 | −5 | −5 |
| Total, miscellaneous housing | −15 | −18 | −20 | −18 | −18 | −18 | −18 | −18 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ***Extensions of existing provisions:*** | | | | | | | | |
| PIK | −7 | −8 | 15 | | | | | |
| Safeharbor leasing for certain coal gasification facilities | | −8 | −2 | −1 | −1 | (−*) | (−*) | (−*) |
| Extend Indian Tribal Tax Status Act | | −1 | −1 | −1 | −1 | −1 | −1 | −1 |
| Extend section 167 (k)—low-income housing | −2 | −7 | −18 | −32 | −43 | −44 | −31 | −10 |
| Architectural and transportation barrier removal | −7 | −13 | −6 | | | | | |
| Total, extensions | −16 | −37 | −12 | −34 | −45 | −45 | −32 | −11 |
| ***Social Security taxes:*** | | | | | | | | |
| Social Security treatment of lay church employees | −67 | −16 | −12 | −6 | −9 | −3 | −15 | −10 |
| ***Miscellaneous provisions:*** | | | | | | | | |
| Medical expense deduction for certain lodging | −1 | −7 | −10 | −10 | −11 | −11 | −12 | −13 |
| FUTA treatment of tips | | | 5 | 7 | 8 | 8 | 9 | 9 |
| Nonprofit dependent care organizations | | −1 | −1 | −1 | −1 | −1 | −1 | −1 |
| Total, miscellaneous | −1 | −8 | −6 | −4 | −4 | −4 | −4 | −4 |
| ***Other provisions***[1] | | | −77 | | | | | 48 |
| **Total Revenue Increase** | **828** | **9,268** | **16,023** | **21,757** | **24,936** | **27,246** | **31,016** | **34,968** |

[1] Provisions are not listed separately which have negligible revenue effects.

Source: U.S. Department of the Treasury.